NRN FOCUS

HEALTHCARE FEEDING

A WIDE-OPEN FIELD FOR GROWTH

By Rurick Telberg

Long spurned for its slim margins and red tape-snarled payments, the health care industry is now one of the most lusted-after food-service markets.

"Health care has changed from a mature industry to what we think will be a high-growth one," says Lawrence Bittinger, marketing vice president at Service Systems Corp. "It's a whole new ballgame."

The reason: New Federal hospital cost-containment legislation, beginning a three-year phase-in next month, will penalize poorly run institutions and reward the efficient.

Food-service contractors believe this will prompt hospital administrators to farm out their dietary and nutrition departments in an effort to cut expenses.

The new law is designed to slow out-of-control health care costs, which jumped four times faster than inflation last year.

Observers agree it will cause massive changes in the way America's 7,000 hospitals are run, in holding down the growth of Federal Medicare and state Medicaid expenditures, in shorter stays for patients and the very nature of the nation's health care system.

Health care is a $360-billion-a-year business in the United States. Food service accounts for 3% of that, or $12 billion.

Eighty per cent of the nation's hospitals run their own food-service programs, leaving contract feeders, who cater to about 20% of the market, plenty of room to grow—but only at first glance.

Hospital food-service administrators, though fully aware that many of their operations are woefully inefficient, are bracing for a fight to keep their territory—and their jobs.

The new legislation, says Edward Allum, food-service administrator at War Memorial Hospital in Saulte Ste. Marie, Mich., "is going to help. Now I'll be able to make a profit.

"The reason management companies exist," he says, "is that managers can't manage."

Contract feeders are facing another major hurdle: One-third of the nation's hospitals now belong to chains and that number could double in the next five years.

Whether community nonprofit, religious or investor-owned, multihospital systems are able to groom management and buy in bulk, two of the biggest selling points for contractors.

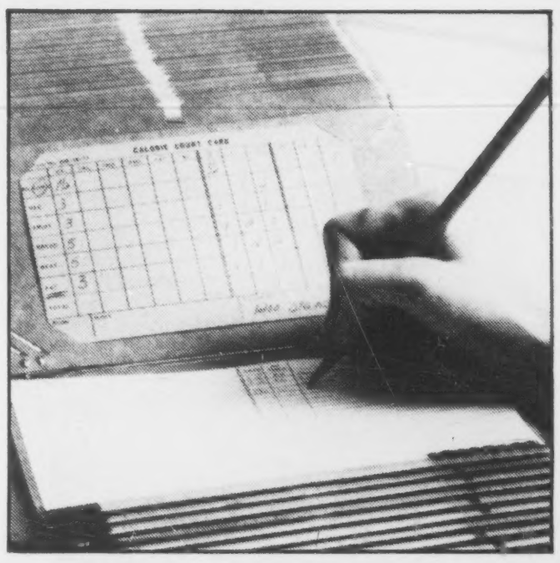
"In general," says Karen Johnson, health care marketing director for Chicago-based Interstate United, hospital management companies "prefer to control all facets of the operation. And, although they may not initially assume food-service operations in a newly acquired account, inevitably they will take it over."

Food-service management companies began girding for their health care offensive three years ago when recession knocked the bottom out of their smokestack accounts. "People are always going to get sick," notes Carr Newcomer, executive vice president at Servomation.

For caterers heavily invested in schools and colleges, strategists saw the baby boom going bust. "Health care doesn't close in the summer, schools do," says Robert Wood, president of M. W. Wood Enterprises, Allentown, Pa.

At the other end of the aging cycle, analysts note that 15% of the American population is turning 62 years old every year and living longer. "In 20 years," says Eugene Congdon, life care services vice president at Morrison Inc., "you'll have one whale of an industry."

(Continued from page 65)



Health care has grown to a $360 billion a year business in the United States. Food service accounts for 3% of that, or $12 billion.

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HEALTHCARE FEEDING

Spiraling costs spur new legislative controls

WASHINGTON—Groundbreaking new health care cost-containment legislation spells profound changes in the way hospitals do business, leading food-service administrators to view the new rules with a mixture of fear and hope.

"We all agree hospital costs have to be contained," says Mary DeMarco, food-service senior staff specialist at the American Hospital Association which mapped the new prospective pricing system.

Health care costs rose 15% last year while the consumer price index edged up only 4%. Opinion polls beat the drum of public outrage as Americans tried to reconcile their twin views that everyone deserves the best treatment money can buy, but someone else should pay for it.

Inefficiency has been a major contributor to skyrocketing food-service costs in the healthcare industry. One manager estimates that hospitals generally order 10%-15% more food than necessary.

Woeful Inefficiency

There is no doubt among food-service administrators that their purchasing, production and delivery systems are woefully inefficient.

One well-informed manager estimates hospitals generally order 10% to 15% more food than needed. In the past the costs could be passed on as the Government picked up 35% of the bill, and insurers took 29%.

"This has presented an opportunity for people to take a long, hard look at what they've been doing," DeMarco says.

The Health Care Financing Administration, a part of the U.S. Department of Health and Human Services, was due this month to set the prices for 467 different treatments, called "diagnostically-related groups" or DRG's.

Next month one quarter of hospital reimbursement revenue will be figured by DRG's. Next year, it will be 50%; in 1985, 75%—the program will be fully in effect starting October 1986.

The enabling legislation was passed in 1982 as part of the Tax Equity and Fiscal Responsibility Act, or Tefra, which restaurateurs may better know for its tip reporting provisions. It was hammered into shape as part of this year's Social Security system rescue plan.

It applies to every state except New York, New Jersey, Maryland and Massachusetts, which have like-minded local programs in place.

Prospective pricing replaces retrospective reimbursement which allows, for example, the same heart attack treatment to cost $1,500 in one hospital, but $9,000 in another.

The core of the new system is that if an institution provides care for less than the present rate, it can pocket a portion of the difference. But if its costs exceed the rate, it must make up the disparity out of its own coffers.

Some critics contend that the quality of hospital food, already nagged by a notoriously bad reputation, will decline as hospitals and contractors alike seek to cut costs.

But most in the industry welcome the new plan.

"Now I'll be allowed to make a profit," declares Edward Allum, food-service administrator at War Memorial Hospital in Saulte Ste. Marie, Mich.

Dire Results

But the results for poorly managed facilities may be dire. "You're going to see hundreds of hospitals cleaning up or being taken over by chains," Allum says, "because they couldn't control their costs."

In addition, food-service management companies are gearing up to pitch their product to newly cost-conscious hospital trustees. "The bottom line," says Tony Alibrio, a Saga health care vice president, "is that they have to run their hospitals as a business."

Contract feeders fear growing hospital chains

Though contract feeders expect heady growth in health care, some are voicing concerns sparked by the deepening importance of hospital chains.

"The big question," concedes Bill Edmundson, president of ARA's hospital food management division, "is whether contract-feeding companies can gain inroads in those multihospital groups."

By the end of the decade, there may be fewer than 700 independent community hospitals. Already, one-third of the nation's 7,000 hospitals are part of chains, both proprietary or nonprofit, up from 12% 10 years ago.

The prospective pricing system will only accelerate the trend.

Contract feeders are worried because agglomerated hospitals reap all the efficiencies of size that constitute contractors' smoothest sales pitches: the ability to recruit and train management, the use of tried-and-true systems and the savings of bulk buying.

Few of them have shown any inclination to pay a contract feeder for something they can do themselves. Hospitals would rather pocket the management fee.

"If they do all their own food service, it's certainly a threat," concedes Edmundson. "If we're shut out of those hospitals, we'd have a serious problem."

But contractors are also hoping pressure to cut costs will force hospital administrators to turn to food-service specialists. "I think we'll sign additional business because of it," says Ian Ferguson, Marriott's vice president in charge of the health care service division.

New Accounts

Tony Alibrio, Saga's health care division vice president, sees an increasing number of new accounts from hospitals seeking outside specialists.

Three years ago, he says, almost half of Saga's new business came from hospitals dissatisfied with their previous food-service supplier. This year 80% of Saga's new accounts are new to contract feeding.

But multihospital systems, especially proprietary investor-owned chains, are growing by leaps and bounds. Last year the 225 biggest systems posted a 38% profit increase to $1.2 billion, even if the nonprofits among them called their net "surpluses."

Investor-owned chains now control 7% of the nation's hospitals, and expect to double that in five years.

The biggest among them, Nashville-based Hospital Corp. of America, was launched over a decade ago by Jack Massey, who made his fortune as the architect of Kentucky Fried Chicken.

Nevel Andrews, HCA's dietary systems manager, says HCA handles food-service in 86% of the chain's 350 hospitals. He says he believes the rules of the game have changed in HCA's favor.

"It used to be a contract feeder's fee could be charged as a cost and it was reimbursible," Andrews says. "But you can't pass along that fee any more. Contract feeders are going to have to work a lot harder for their percentage."

"You don't solve problems by hiring people anymore," says Ann Hopton, dietary consultant at the second-ranked hospital management chain, Humana of Louisville, Ky. "We've got six facilities where the food-service is managed by outsiders," she says. "But they came with the hospitals when we bought them."

Investor-owned chains are only the tip of the iceberg. Many hospitals are being organized along religious lines. Today 13% of all hospitals are part of religious-affiliated groups. In five years, expect 15%.

Nonprofit secular systems now operate 5% of the market, which could rise to 7% in five years.

Food-service executives contend that multihospital groups can be partners as well as perils. But for now at least, contractors are still looking for willing partners. ARA's solution, of course, has been to vertically integrate: It owns a nursing home chain.

THE BILLION-DOLLAR HOSPITAL MANAGEMENT COMPANIES

Company/Headquarters	Revenue (In millions)	Beds	Hospitals
1. Hospital Corp. of America/ Nashville	$3,539	50,172	351
2. Humana/Louisville, Ky.	1,924	16,286	89
3. American Medical International/ Beverly Hills, Calif.	1,402	10,382	81
4. National Medical Enterprises/ Los Angeles*	1,383	31,496	262

Source: Company reports, data from latest fiscal year.

*National Medical data includes 180 nursing homes with 21,500 beds.

Investor-owned health care chains own outright 7% of the nation's hospitals. That number could double in the next five years.

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HEALTHCARE FEEDING

Profile: The challenge of feeding a hospital

DENVER—Hospital food-service administrators, by some accounts, are on the defensive. As pressure mounts to bring their departments in on budget, management companies bay at the door.

But to Barry Hutchings, food-service director at Swedish Medical Center here, food-service management companies pose little danger. "A contract feeder," he says, "never gets an operation that's well run."

But to Hutchings and others like him at the 5,600 hospitals which have not fallen to contract feeders' blandishments, fear of the management companies takes a backseat while they simply try to get the food out, on time and still hot.

Hutchings has built a well-diversified operation that washes over any distinction between profit-making and charity-run institutions.

"The difference between proprietary and nonprofit institutions has blurred anyway," says Hutchings, who is as likely to be found on the hospital grounds overseeing a barbecue as in his office.

Over the past four years, Hutchings has branched his operation into other areas, including employee feeding, senior citizen centers, schools, and special-event catering. "We're diversifying our market share," he says.

"I don't think we'll be seeing as many patients in bed, in acute care, in the future," he envisions. "People are looking for clinics and care at home." He figures it's his job to figure out how to bring food service to the patient, no matter where the patient is.

"Hospitals totally dependent on patient income," Hutchings says, "will be fighting a losing battle."

A full-service, profit-making public restaurant at the 322-bed facility is priced for a 12% operating margin.

Barry Hutchings (left), Food-service administrator at Swedish Medical Center, Denver, lays out food-service plans with hospital administrator Neil McElhinney.

At the employee cafeteria, 700 meals a day are served, priced just to recover food cost. Hutchings also runs meals to senior citizen centers to the tune of 400 per week, and he caters special functions such as office parties and business meetings at the hospital.

Hutchings' latest project is an off-campus public restaurant to recapture some of the center's lost employee business. He's planning a health-styled menu low on salt and polyunsaturated fats.

But in the hospital itself, "we're fighting a battle of logistics just to get the food out every day."

Where there are no sales and profits to measure performance, hospital food-service administrators measure themselves in terms of meals per labor hour or cost per meal. Hutchings' operation spews out 6.5 meals per labor hour. He figures a facility his size should average about five.

In all, Swedish Medical Center turns 1.46 million meals a year on a $2.57 million budget for a $4.39-cost-per-meal. About 60% of his costs are labor, 36% food and the rest overhead.

The day-to-day headaches of a health care operation start at the beginning—purchasing. Often the special needs of patients will dictate a budget item.

Squeeze bags that take two hands to open are an insurmountable obstacle for patients with a broken or paralyzed hand. One-handled soup bowls may also be useless. Heavy china may be a dead weight.

"Sometimes patients' needs will make a purchasing decision for you," he says.

And then preparing palatable meals is a chore demanding imagination. How do you make a steak-and-potatoes dish for someone whose jaw is wired shut? Puree it.

Or how to encourage a comatose patient to move his muscles and also give him necessary moisture? Put a popsicle on the patient's lips.

For new mothers and fathers, Hutchings, like many administrators, offers champagne going-home dinners. "But hospitals don't really compete for patients," Hutchings declares.

"Patients, after all, don't usually have much choice over where they go. They go where their doctors are," he says. "We compete for doctors."

Changing system creates vast new opportunities

(Continued from page 61)

As a result, food-service management companies have acquired competitors with already established toeholds in the market, beefed up their own health care divisions or started them from scratch.

In addition, food-service companies are jumping into the field as whole-facility operators.

Food-service companies are jumping into the field as whole-facility operators

ARA Services, for example, owns one of the three biggest nursing home chains in the nation. Glendon French, ARA's health care service sector president, admits he is running out of chains to buy. "The better ones," he says, "have been pretty well picked over."

Morrison, the 160-unit cafeteria chain, has jumped into life care, which offers retirement communities with on-site skilled, long-term nursing care. Via an imaginative partnership with nonprofit groups, Morrison has two in operation and 15 more in construction.

Service Systems last year acquired Stouffer's catering division and this year Mannings of San Francisco. Half of Mannings' 300 accounts were in health care and the two deals made the R. J. Reynolds subsidiary, one of the biggest contenders in the field.

Custom Management last year bought Baltimore-based Macke's health care division from its parent, Allegheny Beverage. Earlier Custom bought Ogden Food Service's health care operations from the Boston-based conglomerate.

Ogden executives had complained about margins as slim as 2% in the field, and Allegheny fretted that they were spreading themselves too thin by remaining involved in health care.

But at Macke, at least, there have been some second thoughts about abandoning health care.

"Now that we have things in order," said Harry Conn, an Allegheny senior vice president, "we are re-examining the health care field."

Other companies dumping out of health care include Greyhound, and even Ramada Inns and Hyatt Hotels, none of which seem to have any regrets.

Perhaps the retreating firms were daunted by the knowledge that less than 20% of hospitals contract out their food-service operations and three-quarters of that is controlled by six companies—ARA Services, Service Systems, Saga, Morrison, Custom Management and Marriott.

Many contract feeders provide not only food service, but also security, maintenance and housekeeping. At Custom Management, it accounts for about $10 million a year.

Nevertheless John Metz, Custom's president, is hedging his bets on continuing growth in the changing health care market. "We are now forming," he said, "a consulting firm for those hospitals who don't want contract management."

THE TOP SIX FOOD-SERVICE COMPANIES IN HEALTH CARE

Company/Headquarters	Beds	Accounts
1. **ARA Services/Philadelphia***	60,000	350
2. **Service Systems/Buffalo, N.Y.**	39,000	200
3. **Saga/Menlo Park, Calif.**	35,000	170
4. **Morrison/Mobile, Ala.**	32,000	190
5. **Custom Management/Kingston, Pa.**	25,000	150
6. **Marriott/Bethesda, Md.**	24,000	100

Source: *NRN* Estimates

*Figures include 31,000 beds and 266 nursing homes that ARA operates.

Together the top six companies control 73% of the 240,000 hospital beds which have been converted to contract food service. Food-service companies in general cater 17% of the nation's 1.36 million hospital beds.

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HEALTHCARE FEEDING

ARA Services runs 266 nursing homes with 31,000 beds, a 140-unit chain of child care centers (left) and numerous contract feeding accounts.

Feeders test many doors for route to profits

MOBILE, Ala.—Morrison, known mainly as a cafeteria chain, has jumped into nursing home operations using an imaginative deal-making device that applies free-market principles to charity institutions.

The company mixes retirement communities with skilled nursing facilities, but manages them as non-profit institutions because they are owned by church-affiliated groups.

Morrison has opened two so-called "life care" facilities and 15 more are under construction. Morrison is not the first to do it, but it is one of the few food-service firms involved.

"A not-for-profit institution has got to make a damn good profit to survive," asserts Eugene Congdon, vice president for Morrison's life care management services division.

Since the 1960's about 250 such facilities have opened around the nation with capacity to cater to nearly 90,000 middle-class Americans.

At Spanish Fort, Ala., Westminster Village has 262 apartments, a 60-bed nursing home and 14-bed infirmary.

The 50-acre ersatz city is home to a branch bank, billiard hall, library, ice cream shop, beauty parlor, barber shop, stationery store and chapel—all managed by Morrison.

Westminster is owned by the Presbyterian Retirement Corp., which holds title to the facility and whose board of directors hires Morrison under a three- to five-year management contract.

But it would never have been built without Morrison, which designed it, organized it, founded the church group and now runs it. The church group floated Government-subsidized industrial development bonds to finance its construction.

"We charge them based on the amount of services we provide and the size of the facility," Congdon says. "We take our orders from the board of directors."

Residents pay a one-time "endowment" to live at Westminster ranging from $30,000 to $80,000, depending on their accommodations. Monthly maintenance charges go from $475 to $800.

"They're not sick when they come here," Congdon says. "But if they do get sick, they know they'll be taken care of."

The market, apparently, is a big one.

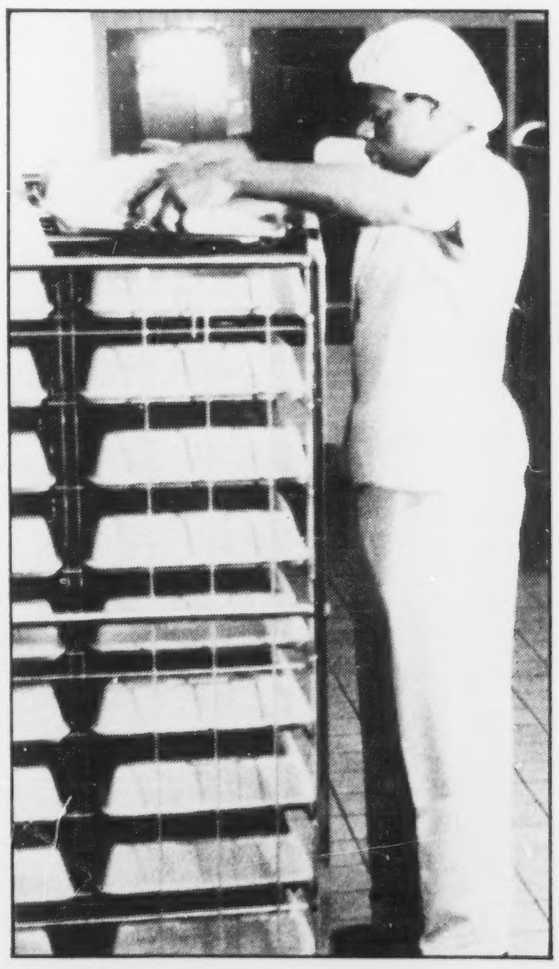
"There are a lot of little old ladies out there with a lot of money," he says. "Five thousand people a day are turning 62."

Morrison has barely scratched the surface of the market, and it is not alone in catering to the needs of the elderly.

- ARA Services, the biggest contract feeder in the nation, runs 266 nursing homes with 31,000 beds. That complements both ARA's 140-unit chain of child care centers and its contract feeding business.
- Beverly Enterprises of Pasadena, Calif., is by far the biggest nursing home operator in the nation. It runs more than 600 properties catering to 64,000 residents. Its revenues are expected to top $1 billion this year.
- National Medical Enterprises of Los Angeles owns over 200 nursing homes with about 30,000 beds.
- Manor Care of Silver Springs, Md., which franchises the 600-property Quality Inns motel chain, operates over 100 nursing homes with about 13,000 beds.

The demand, moreover, is clear. The nation's 17,000 nursing homes are running at 97% occupancy, and there are waiting lists spelling the need for 8,000 more facilities.

Only 5% of the nation's elderly, mostly women, are residents of nursing homes. Operators say state authorities are reluctant to license any more homes for fear Medicaid costs will spiral out of control.



Worker prepares patient food trays for delivery.

Guaranteed-rate contracts lure more hospital accounts

BUFFALO—Contract feeders have increasingly attempted to corner more business from cost-conscious hospital administrators by guaranteeing what a hospital's outlay will be.

The guaranteed-daily-rate, or guaranteed-per-patient-rate contracts are fast replacing cost-plus deals, which were much more lucrative for food-service management companies.

But Robert Flickinger, chairman and chief executive of Service Systems here, is an outspoken critic of set-rate agreements.

"It's not a very enlightened way to do business," he declares. "The first thing you cut is quality."

Flickinger doesn't have to mention the reputation hospital food has among consumers. The question—Why is hospital food so bad?—nags every food-service manager.

Flickinger admitted, however, that Service Systems probably writes as many guaranteed-rate contracts as any other firm. Maybe more, because Service Systems is bigger than almost everyone else. But Flickinger says he doesn't have to like it.

Contractors are lured to hospital feeding because it complements their other business lines, demands little or no capital investment, and throws off about 2%, relatively risk-free, margins.

But under guaranteed-rate deals, Flickinger says, "The contractor will have to put his cash out upfront and take his chances. It can bury you if you're wrong."

Many smaller companies have indeed been paralyzed by faulty bids or slow-paying institutions. For now, however, one contract-feeding executive put it this way, "It's the way to sell business."

Robert D. Flickinger
Service Systems president

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The drive for efficiency—Pp. 55-67

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Diversified HoJo strategy taking shape

New concepts head drive for market share

G. Michael Hostage

By Charles Forman

BRAINTREE, Mass.—Driven by a critical need to boost its share of the domestic hospitality market, Howard Johnson Company is testing a range of new casual theme and family restaurants.

Recent prototype restaurant openings come on top of a just-begun push into full service hotels, fast food and an expanded contract management business.

At the same time the company has disclosed it is paring its no-longer-efficient manufacturing operations and recasting direction at its lodges, Ground Rounds and Howard Johnson restaurants.

"We want entry into many demographic groups," Thomas Russo, restaurant and lodging group president, said in divulging the strategy that company officials hope will put them on a growth track.

New concepts opened within the last six weeks are Bumbershoots, a casual theme restaurant in Framingham, Mass., and Paddywacks, an upscale coffee shop operation in Westfield, Mass., near Springfield.

Halligan's, a dinnerhouse concept somewhat more formal than Bumbershoots, but with a similar menu is set to open in Burlington, Mass., on Boston's North Shore in a few months.

For the company's first full-service hotel, ground was broken last month on a 7.3-acre tract in Westboro, Mass. About $12 million will be spent on the 4-story, 224-room unit with completion expected in about 18 months.

Also last month Howard Johnson opened its first franchised Burger King fast-food restaurant on the Pennsylvania Turnpike near Philadelphia.

Two more Howard Johnson BK's are planned for the Turnpike this fall. A total of at least 20 Howard Johnson Burger Kings are to be open within five years.

At 222-unit Ground Round a recasting of menu to lighter fare and revamp of building and decor in favor of a brighter, spacious feeling with added greenery are expected to help the chain build check averages and volumes and draw customers from more upscale casual-theme competitors.

About $200,000 per unit is being spent on this effort, sources estimated, and compa-

(Continued on page 5)

Hostage tackling tough challenge

By Charles Bernstein

BRAINTREE, Mass.—It's been 20 months since G. Michael Hostage became chairman and president of the Howard Johnson Company, and some observers are impatient with the relatively slow progress they feel has been achieved.

NEWS ANALYSIS

But what Hostage is doing in refashioning the image of HoJo so gradually makes all the sense in the world to those close to the situation. He has taken a conservative real-estate-oriented and "manufacturing"-oriented company and worked slowly toward a marketing-oriented company.

If he'd moved swiftly as some demanded, the company could have been torn apart. After all, it had been in the hands of Howard D. Johnson and then his son Howard B. Johnson for half a century. As the first nonfamily ceo, Hostage had to tread carefully and operate astutely. The diversified Imperial Group of Great Britain, which acquired HoJo three years ago for $630 million, gave him five years to completely turn things around and show strong results.

But Hostage's task is more complicated than it might seem. For Imperial Group is generally felt to have paid far too much for HoJo and therefore wants to see a more-than-healthy return on this investment.

(Continued on page 120)

Among the wide range of new concepts designed to boost HoJo's market share is Bumbershoots, a casual theme restaurant opened recently in Framingham, Mass.

High drama marks third Columbia's debut

By Charles Forman

ST. AUGUSTINE, Fla.—If the restaurant business is theater, as Cesar Gonzmart believes, then perhaps the first hours a new restaurant has opened its doors to the public are a sort of moment of truth, our industry's version of a Broadway opening night.

Gonzmart and his family operate three Spanish cuisine restaurants in Florida, each named Columbia. The first two Columbias are in Tampa and Sarasota, the third opened here this past summer.

Gonzmart asked *Nation's Restaurant News* to share with him, his family, his friends and his business associates the opening—frenzied, gut-wrenching, panoramic, moving and finally triumphant—of the most recent operation.

The St. Augustine Columbia opened at an estimated total investment cost of a little over $5 million. The building itself absorbed about $2.1 million in construction costs. The historic site, where the foundations of the old Spanish town hall (Spanish explorers settled St. Augustine in 1565) could still be seen until construction began, was valued at another $1.5 million. Furnishings, including about $500,000 in kitchen equipment, soaked up $1.5 million more.

The financing is a story in itself. The $5 million was put up by the Henry T. Flagler Foundation, a private fund established by Flagler, one of the nation's great railroad magnates, to back activities that would preserve and build up the unique historic nature of downtown St. Augustine.

A destination restaurant in the historic district was considered a necessity by the Flagler Foundation's current trustees, who include Hugh Culverhouse, an owner of the Tampa Bay Bucaneers professional football team.

The Gonzmarts agreed to pay 10% of operating profits up to $50,000 a year to the Foundation. At the end of 10 years they have an option to buy the physical plant for no more than $5 million.

With the money he felt he needed to accomplish the Foundation's purposes promised,

(Continued on page 122)

LATE NEWSBREAKS

Chart House seeks to acquire Godfather's

Chart House would acquire Godfather's Pizza for about $306 million in stock under a tentative agreement. Since Don Smith moved to Chart House four months ago as president and ceo, the company has taken a much more aggressive posture toward development. In addition to over 370 Burger Kings, it operates 130 concepts of its own in several segments.

For the six months ended June 30 the company reported profits of $9.5 million on revenues of $200 million. At fast-growing Godfather's Pizza, operator of 810 company-owned and franchised units, founder William Theisen has moved aside as ceo, bringing in former Smith subordinate Charles Boppell, who was Taco Bell president.

Food price rises loom in aftermath of drought

NRN Special Report

The drought and heat wave which hit the Midwest and Mountain States during the final days of July and continued through August without respite in most areas will hit home to food-service operators by next spring—and possibly before, according to agricultural economists both in and out of Government. Yet for the short term, the operator may well benefit from the drought's impact on cattlemen.

The biggest effect will be on meat and poultry prices, since the major casualties of the blistering heat and lack of moisture over the prolonged period were corn and soybeans, the two major sources of animal and poultry feeds. The price of both grains have risen on both the cash and futures markets by as much as 60% over last year at this time in the case of soybeans and 55% for corn. Its tangential effects will even be felt in higher prices for a number of processed foods, including tomatoes, peas and green beans.

Country agents, taking soil moisture samples through the affected areas, reported the lack was the worst since the great "dust bowl" drought of the 1930's. A number of farmers who gambled on a good crop and turned down the Federal Government's Payment In Kind

(Continued on page 122)

New $40M BK ad campaign renews burger war assault

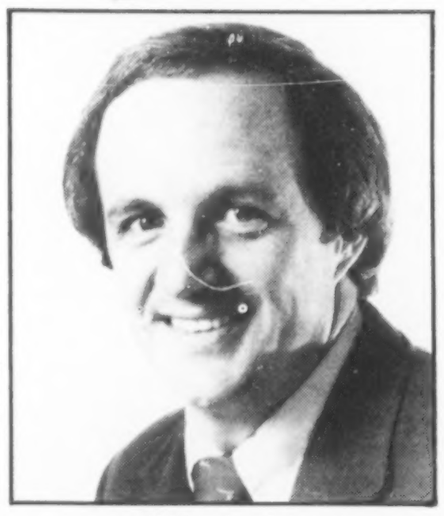
By Joe Edwards

MIAMI—Burger King has kicked off a $40 million advertising campaign designed to maintain the double-digit real sales gains it says resulted from the ongoing "battle of the burgers" strategy.

The new ads are intended to be as controversial as last year's, according to Burger King officials. One spot features the MacDonald family of Norwalk, Conn., who advise viewers to switch to Burger King "and tell 'em the MacDonalds sent you."

In its latest ads, Burger King is claiming that millions of fast-food customers have switched to its restaurants as a direct result of the comparative ads that first appeared on network TV on Sept. 27, 1982.

As with the original ads, the new spots are humorous and self-congratulatory, but contain few hard facts.



Kyle Craig

This time around, however, Burger King has released research data to support some of its advertising claims. Company research shows that Burger King attracted more than five million new customers in the last 10 months.

Kyle Craig, executive vice president and marketing director, also quoted figures compiled by CREST (Chain Restaurant Eating Out Share Trends) that show more than two million new customers ate at Burger King units in the last audit period of 1983 compared to the same period a year earlier.

Craig also presented monthly sales figures showing Burger King enjoyed an average monthly 13% real sales gain (total sales minus menu price increases) at comparable units between October 1982 and July 1983.

Most important, Craig declared, sales increases did not taper off as "the battle of the burgers" dragged on. Real sales were up 14% in April, 11% in May, 14% in June and 11% in July compared to the same months a year ago.

"People said we'd get a short-term blip," Craig said. "But our business went through the roof. Nothing has shocked us like the success of this thing."

Other factors came into play during the period, Craig admitted, including a general economic upswing and increased consumer spending. In addition, Burger King's sales had been particularly weak the year before the "battle of the burgers" was launched.

Still, Burger King's real sales growth between October 1982 and July 1983 was as much as six times higher than gains at McDonald's and Wendy's, Craig noted. In July, for example, Burger King posted 11% real sales gains over July 1982, while McDonald's and Wendy's real sales were up about 2%.

In fiscal 1983 ended May 1, Burger King reported a 12% increase in domestic average unit sales to $838,000. McDonald's average unit sales are about $1.13 million and Wendy's about $721,000.

Craig also credited the chain's free-wheeling advertising strategy for raising "franchisee attitude, sales and profits to the highest levels in the company's history."

The chain's "big switch" ad campaign had its debut on network TV on Sept. 12. Three short spots ran for about 10 days, followed by the spot featuring the MacDonald family

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Meet the *Mac*Donald's of Norwalk, Conn., Burger King's latest weapon in the ongoing "battle of the burgers."

MONTHLY REAL SALES INCREASES DURING THE 'BATTLE OF THE BURGERS'

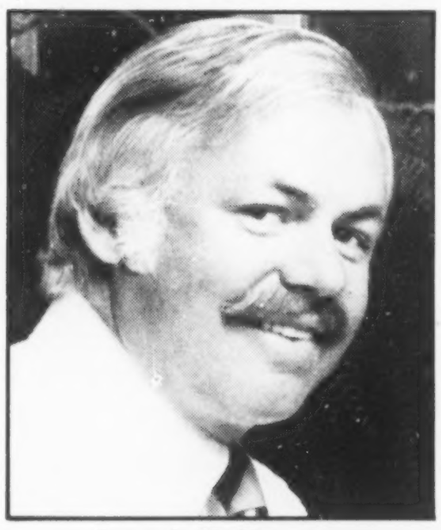
(Per Cent Change Vs. Year Earlier)

Chain	1982 Oct.	Nov.	Dec.	1983 Jan.	Feb.	March	April	May	June	July
Burger King	10	5	9	16	18	14	14	11	14	11
McDonald's	3	1	3	5	0	3	1	2	3	2
Wendy's	6	1	2	2	0	1	5	2	3	2

Source: Burger King Corp. and *Restaurant Industry Trends Report*

***Figures shown are per cent gains** in total unit sales minus menu price increases for each month compared to the same month a year earlier. Burger King launched the "battle of the burgers" ad campaign on network TV on Sept. 27, 1982.*

Keenan leaves as Pizza Time ceo in major company reorganization



Joseph F. Keenan

By Don Jeffrey

SUNNYVALE, Calif.—Joseph Keenan has resigned as president and chief operating officer of Chuck E. Cheese's Pizza Time Theater in the wake of a major company reorganization.

Pizza Time Theater has been broken down into three operating divisions, each with its own president.

A spokesman said the Chuck E. Cheese pizza-and-entertainment restaurants—by far the largest part of the company—will be headed by George Hellick, who was promoted to president from senior vice president of operations. Hellick joined the company in January after seven years with Denny's restaurants.

Neither Hellick, Keenan, nor Nolan Bushnell, chairman and founder of the company, was available for comment at press-time.

The spokesman, John Porter, did not give a reason for the resignation of Keenan, who have been with Pizza Time almost since its beginning as a separate company in 1979.

He said he didn't know Keenan's plans but added: "He didn't leave us for another company."

According to a statement by Bushnell, Keenan will remain on the board of directors and act as a special consultant to the company.

These changes come at a time when the entire pizza-entertainment segment—which features computer controlled animated stage characters, videogame arcades and kiddie rides—is straining under decreases in profitability and investor confidence.

Hellick, with his experience, appears to have widespread support of Pizza Time's franchisees.

Patrick Hopf, chairman of Family Entertainment Centers, a 16-unit Chuck E. Cheese franchisee, said of the move: "This indicates their basic new thrust—to become a restaurant company as well as an entertainment company. They've got a real restaurant operator and marketer in George Hellick. And now he'll not only have the responsibility but the authority, too. I think it's going to make a real significant change. George is going to do what he wants to do."

Pizza Time Theater has more than 250 franchised and compa-

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Bonanza, Primo sign pact to offer joint franchises

By Donald Frazier

DALLAS—Bonanza, the franchisor of about 565 budget steakhouses, is giving its top franchises a chance to diversify into several other concepts.

A deal between Bonanza and the Phoenix-based Primo Inc. gives the steakhouse operator the right to franchise as many as 100 units for Primo by the end of 1985.

The two companies will split the various roles of franchising. Primo will train, equip and open the operations, while Bonanza will handle site selection and financial arrangements.

Promo operates four concepts, most of them designed for the special requirements of shopping malls. The two principal formats are the 70-unit Drake's Salad Bar and the 14-unit Primo's Frisco Deli. The company also runs six units of Polarbar, a frozen dessert stand, and one unit of Batter Up, a snack bar.

Almost all of these concepts are operated in shopping malls. According to a Primo executive, just under 40% of all retails spending in the country takes place in shopping malls.

"Both of us are winners in a deal like this," said the executive, Primo president Anthony Brunetti.

He explained that Primo, a concept design specialist, does not have the financial muscle or the real estate expertise to roll out its concepts properly on a large scale, while Bonanza wants to offer its franchisees a way to expand their operations.

"They have something we want and we have something they want," Brunetti said. He pointed out that Primo will receive at least $1 million in initial franchise fees as the stores go up, and about $500,000 a year in ongoing royalties.

The deal between Bonanza and Primo may be part of a trend for franchisors to offer franchisees a variety of concepts. Wendy's developed its chicken-and-biscuits concept,

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COMMODITIES

Prolonged drought proves a boon for operators

NRN Special Report

The prolonged Midwestern drought and heat wave, while seriously affecting anticipated meat prices for next Spring, will prove a boon for operators this fall and most of the winter, according to agricultural marketing experts. Suffering from lack of grass on the rangeland, ranchers are sending the animals to market in growing numbers, overflowing the pipelines and causing meat prices to fall—at least for the present.

For the past two months, Choice beef prices have been resting generally below the "magic" $1-per-pound slaughterhouse price. Hog prices, while showing more volatility, have returned to that level after a short climb to a few cents over the "threshold." Hogs were hard-hit by the heat as well; in that case, failing to eat properly and not gaining the weight set as a goal by the producers.

On the other hand, poultry prices, already as much as 20% higher than last year at the beginning of the heat wave, have risen even further as the main producing areas in the Southeast were hit with killing heats destroying millions of chickens.

Not all the news, however, is bad. A number of frozen vegeta-

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PRICE MOVEMENT AT A GLANCE

	Sept. 2, 1982	Aug. 2, 1983	Sept. 2, 1983
Beef, Choice, 700-900 lb., Midwest (lb.)	$1.01	$0.95	$0.92
Broccoli Spears, Grade A frozen (lb.)	$0.57-0.60	$0.57-0.60	$0.55
Broilers, Grade A icepack, NYC (lb.)	$0.4888	$0.5697	$0.6024
Eggs, Grade A large, Chicago (doz.)	$0.6675	$0.695-0.70	$0.755-0.76
Lettuce, iceberg, California (24s)	$3.00-3.50	$4.00-5.00	$4.00-6.00
Pork loins, Choice, 14-17 lb., Midwest (lb.)	$1.31	$0.84	$0.97
Corn, No. 2 yellow, Chicago (bu.)	$2.275	$3.455	$3.53
Sorghum, No. 2, Gulf Coast (cwt.)	$4.61	$5.98	$6.23
Soybeans, No. 1 yellow, Chicago (bu.)	$5.54	$7.24	$8.775
Wheat, spring, 14% protein, Minn. (bu.)	$4.04	$4.295-4.3025	$4.3325

Source: *NRN* Research

Prices listed are packers' f.o.b. plant, unless specified, and do not represent the prices paid by the operator. This list is only a reference to indicate price trends against benchmarks of one year ago and one month ago. Products listed are those showing marked movement in price.